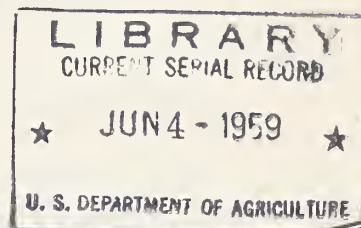


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Milk Distributors



Sales and Costs

October-December 1958

U. S. DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Marketing Research Division

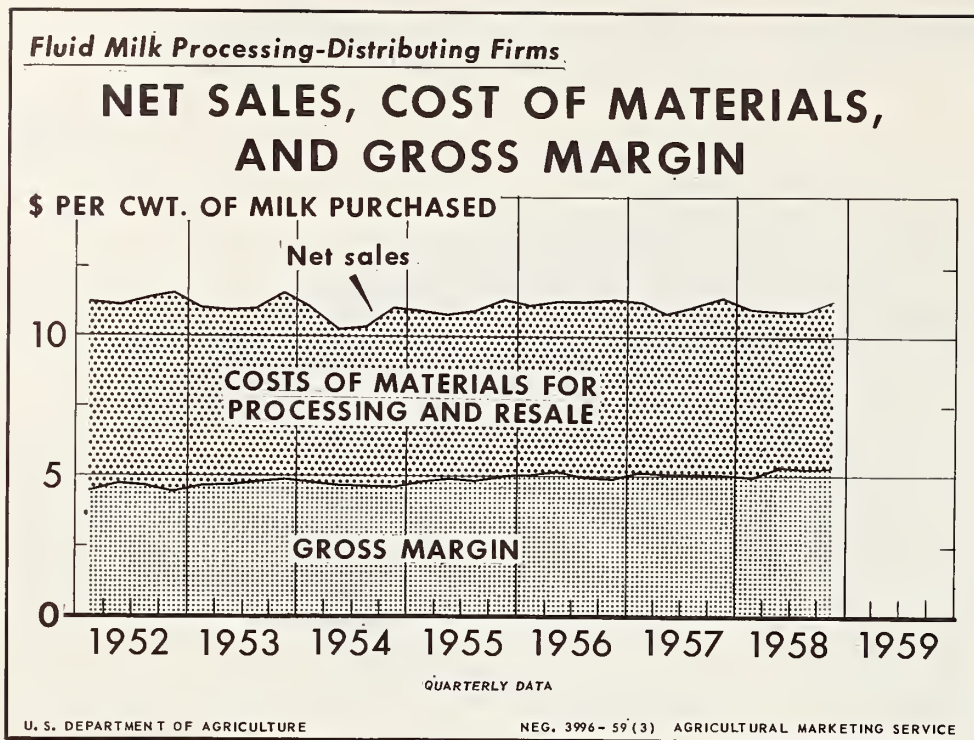


Figure 1

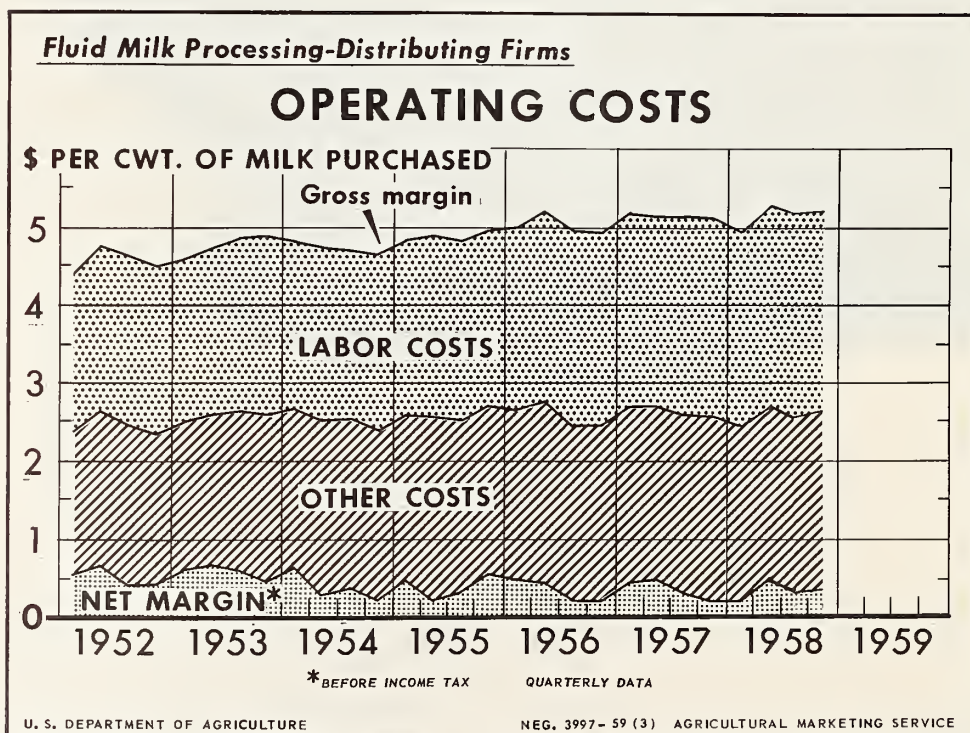


Figure 2

MILK DISTRIBUTORS' SALES AND COSTS
October-December 1958

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Marketing Research Division
Agricultural Marketing Service

: This report is the current issue of a series based upon :
: information obtained from distributors of fluid milk and :
: cream products. These distributors are subscribers to a :
: cost comparison service which furnished the Department :
: with tabular data for analyses. A uniform accounting :
: system is used, and information is given on standardized :
: forms. Data reported include: Costs and quantities of :
: raw milk and other raw materials; prices and quantities :
: of products sold; and operating costs. :
: :
: The firms selected are privately owned, and chiefly single- :
: plant firms. In these characteristics they are considered :
: to be typical. Very small firms, very large firms, national :
: chains, and producer-distributors are not included. :

SALES AND COSTS

The sales value per 100 pounds of milk and cream processed by milk distributors has remained fairly stable for the past 7 years. Distributors' costs for raw milk and cream and other raw materials purchased for processing and resale in 1958 were down about 2 percent from 1957 and the lowest in 7 years. Although costs for raw materials rose more than seasonally in the October-December quarter, they were lower than in the same quarter of 1957 as was every quarter in 1958.

Distributors' operating costs, however, increased in 1958 for the seventh straight year, remaining in the fourth quarter at the new high reached in the third quarter.

As a result of high operating costs, milk distributors' net margin--the remainder for payment of income taxes and return on investment--for the year 1958 was the lowest since 1951. However, this net margin in the October-December quarter was higher than in the same quarter last year.

Sales Value

Distributors' sales value of dairy products per 100 pounds of milk and cream processed averaged \$11.05 during 1958, the lowest for any year since 1955. Sales value in the fourth quarter of 1958, at \$11.28, was up \$0.33 from the previous quarter but down \$0.08 from the fourth quarter of 1957. This was about an average seasonal increase (table 1).

Table 1.--COSTS AND MARGINS FOR SELECTED DAIRY FIRMS: Per 100 pounds of milk and cream processed, for years 1952-58, and for the 5 most recent quarters

Account	Yearly average									
	1952	1953	1954	1955	1956	1957	1958	1957	1958	1958
	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.
Net sales.....	11.32	11.12	10.69	10.95	11.22	11.15	11.36	11.01	10.96	10.95
Cost of raw materials:										
Raw milk and cream.....	5.85	5.43	5.07	5.12	5.30	5.14	5.39	5.22	4.81	4.90
Other.....	.86	.90	.87	.93	.88	.87	.86	.82	.87	.87
Total.....	6.71	6.33	5.94	6.05	6.18	6.01	6.25	6.04	5.68	5.77
Gross margin.....	4.61	4.79	4.75	4.90	5.04	5.14	5.11	4.97	5.28	5.18
Operating cost:										
Salaries, wages, and commissions 1/.....	2.15	2.19	2.21	2.28	2.43	2.50	2.53	2.51	2.56	2.59
Containers.....	.60	.62	.65	.70	.72	.71	.72	.70	.70	.71
Operating supplies.....	.30	.32	.35	.32	.28	.29	.30	.30	.29	.29
Repairs, rent and depreciation.....	.50	.52	.57	.60	.64	.67	.68	.66	.67	.69
Taxes.....	.06	.06	.06	.06	.05	.06	.06	.06	.06	.06
Insurance.....	.02	.02	.03	.04	.04	.04	.04	.04	.05	.04
Services.....	.16	.19	.19	.18	.17	.17	.17	.15	.17	.19
Advertising.....	.15	.15	.16	.18	.19	.18	.18	.17	.19	.18
General.....	.15	.13	.13	.14	.16	.15	.18	.15	.15	.15
Total.....	4.09	4.20	4.35	4.50	4.68	4.77	4.87	4.74	4.84	4.89
Net margin 2/.....	.52	.59	.40	.40	.36	.37	.24	.23	.44	.29
Firms reporting.....	43	51	75	83	80	80	80	80	80	80

1/ Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.
2/ Net returns to owners before income taxes.

In spite of seasonal variations, sales value on a yearly basis has been relatively stable for 7 years. The 1958 average was about 2 percent below the high of 1952, and less than 4 percent above the low of 1954.

Raw Milk and Cream Costs

Distributors' costs for raw milk and cream purchased for processing continued the downward trend of the past 2 years. Even with a more than seasonal increase to \$5.24 in the October-December quarter, raw milk and cream cost was the lowest of any fourth quarter in the 1952-58 period. The 1958 yearly average of \$5.04 was about the same as 1954 but was nearly 14 percent below the 1952 average and 5 percent below the 1956 average.

With relatively stable sales value and declining cost of goods sold, milk distributors' gross margin has, with seasonal fluctuations, increased almost continuously during 1952-58. Their 1958 average gross margin of \$5.17 per 100 pounds of milk and cream processed was the highest for any year, and gross margin in the October-December quarter of \$5.22 was the highest for any fourth quarter. The gross margin has increased from 41 percent of sales value in 1952 to nearly 47 percent of sales value in 1958.

Operating Costs

Operating costs of distributors, per 100 pounds of milk and cream processed, averaged \$4.84 in 1958--\$0.07 higher than in 1957. Increases in operating costs, on a yearly basis, have been continuous during the 7-year period, and in 1958 operating costs were 18 percent above 1952. In the October-December quarter operating costs of \$4.89 were the same as the previous quarter and up only \$0.02 from a year earlier.

Of the total increase of \$0.75 per 100 pounds in operating costs from 1952 to 1958, \$0.69 has resulted from these cost elements: Salaries, wages, and commissions have increased \$0.41; rent, repairs, and depreciation have increased \$0.18; and containers have increased \$0.10.

The average net margin of milk distributors in 1958 was \$0.33 per 100 pounds of milk and cream processed. This was more than 10 percent less than in 1956 and 1957 and considerably lower than earlier years. The decrease of \$0.10 in sales value and the increase of \$0.07 in operating expenses was more than enough to offset the decrease of \$0.12 in cost of raw materials.

Net margin for the October-December 1958 quarter was \$0.33--\$0.04 above the previous quarter. The increase of \$0.33 per hundred in sales value more than offset the increase of \$0.29 in cost of raw materials. Operating costs did not change.

DELIVERY AND SALES COST

Efficiency of delivery operations for fluid milk distributors is related to the degree of specialization and to size.

Retail Costs

By specialization.--Distributors who specialize in retail (home delivery) sales are considerably more efficient in retail delivery operations than other distributors. They have the greatest route density (customers per mile) and about average amount of product delivered per customer; consequently, the amount of product per route mile is largest for these firms. Of greater importance is the fact that the delivery and selling cost per pound of product is substantially lower for the distributor who specializes--costs per pound of product were some 10 percent lower than the average for all firms, and 20 percent lower than the highest cost group (table 2).

Those distributors who specialized in wholesale operations were, generally, the least efficient in retail operations.

In retail operations, the degree of specialization appears to be of considerable importance. The predominantly retail distributors (80 percent or more of total sales at retail) were the most efficient. On the other hand, the basically retail distributors (60 to 79 percent of total sales at retail) are no more efficient than the mixed distributors (those with about equal retail and wholesale sales). Also, the least efficient are the basically wholesale distributors (20 to 39 percent of total sales at retail) rather than the predominantly wholesale (19 percent or less of total sales at retail).

By volume.--There was little, if any, difference in the retail delivery efficiency of large retail volume and medium retail volume distributors. As between the two, medium volume firms delivered slightly more product per customer stop, but they had slightly lower route density. Costs per customer stop and per pound of product were about the same (table 3).

Small retail volume distributors had more customers per mile than the average and about average deliveries per customer. In spite of this, delivery and selling costs per customer and per pound of product were higher than for either large or medium volume distributors.

Wholesale Costs

By specialization.--In wholesale operations--more than in retail operations--specialization appears to be closely tied to efficiency. The predominantly wholesale distributors (those in which wholesale operations account for 80 percent or more of all sales) sell the most product per customer stop

and have the lowest delivery and selling costs per pound of product. Route density is of less importance to the wholesale operations than to retail operations. The predominantly wholesale firms had the fewest customers per mile on wholesale routes (table 4).

At each level of wholesale specialization, except those firms with 19 percent or less of total sales at wholesale, distributors' costs per pound of product increased. Amount of product per customer drops sharply from the predominantly wholesale to the basically wholesale distributor and from the mixed distributor to the basically retail distributor. There is no clear difference between the basically wholesale and the mixed firms in amount of product per customer (table 5).

By volume.--Volume of wholesale sales, measured by costs per pound of product, does not appear to be an important factor in efficiency of wholesale delivery operations. These costs are about the same for large, medium, and small volume distributors. Costs per customer are lowest for large volume distributors and highest for small volume distributors, but this, apparently, is only because of the amounts of product delivered per customer stop.

Observations on Delivery Operations

First, specialization is not related to volume of sales. Small volume distributors range from over 90 percent wholesale to over 90 percent retail; the same is true of medium and large volume firms.

Second, in both retail and wholesale operations the least specialized distributors have costs that appear to be contrary to the general trend; that is, lower than some of the more specialized firms. This may be due to cost allocation procedures: In the specialized retail firm, a larger proportion of wholesale sales tends to be made on retail routes. In such instances, even though the sale is properly recorded, part of the cost properly chargeable to wholesale may be hidden in the retail cost accounts. The reverse may be true for retail sales by the specialized wholesale distributor.

Table 2.--MEASURES OF EFFICIENCY OF RETAIL DELIVERY OPERATIONS OF FLUID MILK DISTRIBUTORS:
By degree of specialization in retail sales ^{1/}

Period	:Predominantly: : retail : (80 percent : or more : retail)	Basically : retail : (60 percent : to 79 percent : retail)	Mixed : (40 percent : to 59 percent : retail)	: Basically : wholesale : (20 percent : to 39 percent : retail)	:Predominantly : wholesale : (19 percent : or less : retail)
CUSTOMERS PER MILE					
	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>
1955					
July-December.....	6.4	5.0	5.3	4.4	3.7
1956					
January-June.....	6.9	5.0	4.8	4.7	3.6
July-December.....	5.5	5.3	4.9	4.3	3.5
1957					
January-June.....	5.6	5.1	4.6	4.5	4.0
July-December.....	6.4	4.8	4.8	4.5	4.2
1958					
January-June.....	6.9	5.0	4.7	3.8	3.7
COSTS PER CUSTOMER STOP					
	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
1955					
July-December.....	14.1	14.9	15.5	15.7	14.1
1956					
January-June.....	14.7	14.6	15.7	16.2	14.5
July-December.....	14.3	14.7	15.9	17.1	15.8
1957					
January-June.....	14.3	15.8	16.6	17.2	18.5
July-December.....	14.1	16.6	17.5	17.5	19.5
1958					
January-June.....	14.4	16.6	17.3	19.1	18.3
POUNDS OF PRODUCT PER CUSTOMER STOP					
	<u>Pounds</u>	<u>Pounds</u>	<u>Pounds</u>	<u>Pounds</u>	<u>Pounds</u>
1955					
July-December.....	6.1	6.0	6.2	5.9	6.0
1956					
January-June.....	6.2	5.9	6.2	5.8	6.1
July-December.....	6.2	5.9	6.1	5.8	6.3
1957					
January-June.....	6.2	5.7	6.3	5.8	6.9
July-December.....	6.1	5.8	6.2	5.9	7.2
1958					
January-June.....	5.9	5.8	6.0	6.1	6.8
COSTS PER POUND OF PRODUCT					
	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
1955					
July-December.....	2.3	2.5	2.5	2.7	2.3
1956					
January-June.....	2.3	2.5	2.5	2.8	2.4
July-December.....	2.3	2.5	2.6	2.9	2.5
1957					
January-June.....	2.3	2.8	2.7	3.0	2.7
July-December.....	2.3	2.9	2.8	3.0	2.7
1958					
January-June.....	2.4	2.9	2.9	3.1	2.7

^{1/} Home delivery.

Table 3.--MEASURES OF EFFICIENCY OF RETAIL DELIVERY OPERATIONS OF FLUID MILK
DISTRIBUTORS: By size of firm

Period	Large	Medium	Small
CUSTOMERS PER MILE			
1955	<u>Number</u>	<u>Number</u>	<u>Number</u>
July-December.....	4.1	4.8	5.2
1956			
January-June.....	4.0	4.5	5.1
July-December.....	4.3	4.7	5.0
1957			
January-June.....	4.5	4.8	4.8
July-December.....	4.8	5.1	4.9
1958			
January-June.....	4.7	4.8	4.9
COSTS PER CUSTOMER STOP			
1955	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
July-December.....	14.2	14.2	16.0
1956			
January-June.....	14.8	14.9	16.1
July-December.....	14.9	15.4	17.1
1957			
January-June.....	15.6	15.3	17.4
July-December.....	16.2	15.2	17.9
1958			
January-June.....	16.0	15.8	18.2
POUNDS OF PRODUCT PER CUSTOMER STOP			
1955	<u>Pounds</u>	<u>Pounds</u>	<u>Pounds</u>
July-December.....	6.1	6.1	6.1
1956			
January-June.....	6.2	6.1	6.0
July-December.....	6.0	6.1	6.1
1957			
January-June.....	6.3	6.1	5.9
July-December.....	6.2	6.0	6.1
1958			
January-June.....	6.2	6.1	6.0
COSTS PER POUND OF PRODUCT			
1955	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
July-December.....	2.3	2.3	2.6
1956			
January-June.....	2.4	2.4	2.7
July-December.....	2.5	2.5	2.8
1957			
January-June.....	2.5	2.5	2.9
July-December.....	2.7	2.5	3.0
1958			
January-June.....	2.6	2.6	3.1

Table 4.--MEASURES OF EFFICIENCY OF WHOLESALE DELIVERY OPERATIONS OF FLUID MILK DISTRIBUTORS:
By degree of specialization in wholesale sales

Period	:Predominantly: : retail : (19 percent : or less : wholesale)	: Basically : : retail : : (20 percent : to 39 percent : wholesale)	: Mixed : : (40 percent : to 59 percent : wholesale)	: Basically : : wholesale : : (60 percent : to 79 percent : wholesale)	:Predominantly : wholesale : (80 percent : or more : wholesale)
CUSTOMERS PER MILE					
	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>
1955					
July-December.....	0.72	1.09	0.79	0.82	0.51
1956					
January-June.....	.74	1.01	.82	.81	.50
July-December.....	.71	.93	.81	.82	.55
1957					
January-June.....	.75	.92	.82	.79	.48
July-December.....	.96	.78	.83	.76	.51
1958					
January-June.....	1.01	.76	.83	.82	.59
COSTS PER CUSTOMER STOP					
	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
1955					
July-December.....	.63	.67	.88	.72	.76
1956					
January-June.....	.70	.77	.86	.67	.73
July-December.....	.72	.74	.94	.76	.76
1957					
January-June.....	.72	.88	.93	.82	.82
July-December.....	.76	.88	.90	.85	.86
1958					
January-June.....	.71	.98	.95	.77	.86
POUNDS OF PRODUCT PER CUSTOMER STOP					
	<u>Pounds</u>	<u>Pounds</u>	<u>Pounds</u>	<u>Pounds</u>	<u>Pounds</u>
1955					
July-December.....	48	41	67	60	72
1956					
January-June.....	53	47	64	54	68
July-December.....	54	48	61	59	68
1957					
January-June.....	54	57	60	63	71
July-December.....	57	57	60	67	70
1958					
January-June.....	54	59	64	61	72
COSTS PER POUND OF PRODUCT					
	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
1955					
July-December.....	1.3	1.6	1.3	1.2	1.1
1956					
January-June.....	1.3	1.6	1.4	1.2	1.1
July-December.....	1.3	1.5	1.6	1.3	1.1
1957					
January-June.....	1.3	1.5	1.5	1.3	1.2
July-December.....	1.4	1.6	1.5	1.3	1.2
1958					
January-June.....	1.3	1.7	1.5	1.3	1.2

Table 5.--MEASURES OF EFFICIENCY OF WHOLESALE DELIVERY OPERATIONS OF FLUID MILK
DISTRIBUTORS: By size of firm

Period	Large	Medium	Small
CUSTOMERS PER MILE			
1955	<u>Number</u>	<u>Number</u>	<u>Number</u>
July-December.....	0.95	0.73	0.77
1956			
January-June.....	.88	.73	.73
July-December.....	.91	.74	.76
1957			
January-June.....	.65	.69	.79
July-December.....	.74	.71	.78
1958			
January-June.....	.70	.72	.81
COSTS PER CUSTOMER STOP			
1955	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
July-December.....	56	70	76
1956			
January-June.....	59	72	86
July-December.....	65	79	91
1957			
January-June.....	68	84	93
July-December.....	66	85	93
1958			
January-June.....	64	89	96
POUNDS OF PRODUCT PER CUSTOMER STOP			
1955	<u>Pounds</u>	<u>Pounds</u>	<u>Pounds</u>
July-December.....	43	56	63
1956			
January-June.....	45	54	68
July-December.....	48	59	70
1957			
January-June.....	50	63	71
July-December.....	49	66	71
1958			
January-June.....	46	65	71
COSTS PER POUND OF PRODUCT			
1955	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
July-December.....	1.3	1.2	1.2
1956			
January-June.....	1.3	1.3	1.3
July-December.....	1.4	1.3	1.3
1957			
January-June.....	1.4	1.3	1.3
July-December.....	1.3	1.4	1.3
1958			
January-June.....	1.4	1.4	1.3

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